



## CATAWBA COUNTY

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Catawba County Board of Commissioners and  
Citizens of Catawba County, North Carolina

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State law requires that all local governments publish within four months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of Catawba County for the fiscal year ended June 30, 2004.

This report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The County's financial statements have been audited by Martin, Starnes & Associates, CPAs, P.A., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federal and state mandated "Single Audit" designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports, along with the schedule of expenditures of Federal and State awards, findings and recommendations, if any, are published in a separate report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

## **COUNTY PROFILE**

Located in a peaceful valley just east of the Blue Ridge Mountains, Catawba County is a land of scenic beauty, diverse cultures, and thriving industry. Three beautiful lakes are located within its 414 square miles, and the Catawba River winds along its northern and eastern border. The County is named for the river and the Catawba Indians who foraged in the valley and were friendly and helpful to the first settlers who arrived in 1747.

Catawba County was officially established on December 12, 1842 when Lincoln County was divided by an act of the North Carolina General Assembly. The North Carolina General Assembly passed legislation to the effect that "the present Town of Newton as selected and laid out shall be the site and location of the courthouse and jail of Catawba County." The County has eight cities and towns and a population of 146,971, ranking twelfth out of 100 counties in North Carolina.

In 1937, Catawba County became the third county in the State to adopt the council-manager form of government. The Board of Commissioners is comprised of a five-member board elected at large on staggered terms in a countywide election. The Board of Commissioners is the policy-making and legislative authority for the County. It is responsible for adopting the annual budget, approving zoning and planning issues and other matters related to the health and welfare of the County. The Board makes appointments to various boards and commissions and appoints the County Manager. The County Manager is the Chief Executive Officer and is responsible for enforcement of laws and ordinances, preparation and administration of the annual budget, delivery of services, implementing policies, managing daily operations and appointment of department heads.

Catawba County provides its citizens with a broad range of services that include public safety, environmental protection, health and human services, cultural and recreational programs, community and economic development, and education. This report encompasses the County's activities in maintaining these services and includes its financial support to certain separate agencies, boards and commissions to assist their efforts in serving citizens. Among these are the Catawba County, Hickory City and Newton-Conover City Schools, Catawba Valley Community College (CVCC), Catawba County Economic Development Corporation and the Hickory Metro Convention and Visitors Bureau.

The annual budget serves as the foundation for the County's financial planning and control. Each year all County departments are required to submit requests for appropriation to the County Manager, who then compiles a proposed budget and presents it to the Board of Commissioners for review. The Board is required to hold a public hearing on the proposed budget and to adopt a final budget no later than June 30, the close of the County's fiscal year.

## **FACTORS AFFECTING FINANCIAL CONDITION**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment with which the County operates.

**Local economy.** Catawba County is the center of a heavily industrialized area. The County is renowned as a furniture-manufacturing center, with sixty percent of the nation's furniture produced within a 200-mile radius of Hickory, the County's largest municipality. In addition, the County has become one of the nation's leaders in the manufacture and development of fiber optics and telecommunications cable. In the year 2000, 40% of the world's supply of fiber optic cable was produced in Catawba County.

With the County heavily reliant on manufacturing, the local economy has suffered over the last few years as a result of the national recession. The County lost nearly 13,500 jobs between January 2001 and December 2003, with almost 11,500 of those jobs in the manufacturing sector, ranking Catawba County fourth in the State for both total number and percentage of job losses (11%). Most of the job losses across the county were the result of telecommunications companies that were overstaffed and that had excess inventories in anticipation of record high levels of demand, which then faded as the national economy slowed.

With heavy job losses in traditional industries, economic development efforts have been focused on diversification within the County. As a result of these efforts, the County's core industries of furniture, textiles, hosiery and fiber optics have been joined by newer manufacturing industries including wood products, automotive supply and plastics manufacturers with the release of several economic announcements over the past year. In December 2003, Gregory Wood Products announced a \$20 million investment, which will add 115 jobs to the County. In March 2004, ZF Lemforder, one of the world's largest automotive suppliers, announced its plans for a \$37 million investment in the County by building a 150,000 square foot facility which will employ 200 people by the end of 2005. In July 2004, German-based Poppelman Plastics announced their investment of \$15 million into a 110,000 square foot facility on thirty acres, which will generate 60 jobs by late 2005. Finally, an \$80 million expansion at Getrag Gears is planned for 2005 with the creation of 300 new jobs.

In addition to a large manufacturing base, the County is supported by a strong service-sector, accounting for more than half of the economic engine in Catawba County. The County is a major medical hub, with two large medical centers, one county-owned and both profitable; a prospering medical and health care community; and many nursing home/retirement facilities. Also, the County is a retail magnet for the region, capturing 60% of the retail sales in the four-county Metropolitan Statistical Area (MSA). Though Catawba County's population ranks 12th in the state, its retail sales per capita ranks 9th in NC.

In August 2004, Catawba County was profiled in North Carolina magazine, published by Raleigh-based North Carolina Citizens for Business & Industry. The 20-page magazine profile included a detailed look at the county's economic woes of the last three years and its efforts to regroup. It also highlighted the area's strengths, including its educational and health-care facilities, geographic location, entrepreneurial spirit, solid financial services sector, high rates of volunteerism and a generally high quality of life in the region.

Economic activity in the region has improved recently as evidenced by the Western North Carolina Economic Index, which tracks the level of economic activity in 25 counties, which includes Catawba. The Economic Index increased by 0.4 percent and 0.2 percent in April and May 2004, respectively, representing the 11<sup>th</sup> consecutive month of growth in the region. The index found the region's economy grew at an annual rate of 5.0 percent since the beginning of 2004, exceeding the growth rate of the U.S. economy during the same period.

As a result of this growth, Catawba County's unemployment rate decreased from 9.4% in June 2003 to 6.8% in June 2004, a three-year low for the County.

**Long-term financial planning.** The County prepares a five-year Capital Improvement Plan (CIP) each year and as of June 30, 2004 estimates \$62 million in capital needs over the next five years. This includes plans to construct a 170-bed jail expansion in the spring of 2005 estimated to cost \$18 million. Funding will come from a one-half cent sales tax dedicated by the Board of Commissioners in fiscal year 2003-04 and funds previously set aside for future expansion of County buildings.

In March 2001, the Board of Commissioners formed a Citizens Advisory Committee to examine public school needs and to recommend options for future improvements to the three school systems and community college. This committee met several times over the course of three months, toured school facilities, heard presentations from each school system and the community college and received growth projections and financial information from county staff. The end result was a recommendation of \$122 million in school and CVCC needs to be spent over a six to eight year period.

In order to pay for some of those recommendations, the Board of Commissioners in fiscal year 2003-04 dedicated two cents of the tax rate, approximately \$2.6 million, along with debt retired each year towards new school construction. Over the next four years, the two cents will allow construction of a new Maiden High School, the conversion of the current Maiden High School to a middle school, the conversion of Tuttle Middle School to an elementary school, the construction of a new Hickory middle school, a County elementary school and a learning library and technology center at CVCC.

In addition, as the county continues to grow, planning for infrastructure is essential to encouraging orderly economic development and preventing urban sprawl. The Board of Commissioners continued a policy established in fiscal year 1994-95 by setting aside one and a half cents of the tax rate in fiscal year 2003-04 for future water and sewer projects throughout the County.

Another long-term initiative was the implementation of a strategic planning process called FORESIGHT that became one of the most successful public-private partnerships in long-range strategic planning in the United States. Established originally in 1985 by the Catawba County Board of Commissioners, it was recognized both regionally and nationally as an award-winning model for strategic planning.

In November 2001, the Catawba County Board of Commissioners established a new edition or generation of FORESIGHT, to be undertaken over a two-year period. The process included a

review of basic information about the overall economy of Catawba County (e.g. demographics, economy, education, housing and quality of life.) Over one hundred citizens participated in four task forces studying economic opportunities in the areas of business and job creation, education, the environment, and increasing the County's exposure in Raleigh and citizen leadership at home. The four task forces completed their final report in July 2004 with strategies for stimulating economic growth in the county, which will be implemented over the coming months and years.

**Cash management policies and practices.** Under the authority of North Carolina General Statute 159-30, the County invests in obligations of the United States Treasury and several of its agencies and instrumentalities; high-grade commercial paper, certificates of deposit and participating shares in a Local Government Commission certified mutual fund for local government investment. The objectives of the County's investment program are safety, liquidity and yield, in that order. Investment vehicles are chosen with the greatest emphasis placed on credit quality and maturity. The cash and investment portfolio balance for the fiscal year ended June 30, 2004 for all funds is \$107 million. Investment income includes appreciation or depreciation in the fair value of investments at June 30, 2004. Increases/decreases in fair value during the current year; however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the County intends to hold to maturity.

**Pension plans.** Permanent County employees regularly scheduled to work 20 hours or more each workweek are required to participate in the North Carolina Local Governmental Employees' Retirement System. This system, as well as optional supplemental retirement plans available to employees and the required supplemental retirement plan for law enforcement officers, are discussed in more detail on pages 50-54 in the notes to the financial statements.

## **AWARDS AND ACKNOWLEDGEMENTS**

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Catawba County for its comprehensive annual financial report for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Catawba County has received a Certificate of Achievement for the last 22 consecutive years. We believe this current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to GFOA.

In addition, the County also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget dated July 1, 2003. This is the fifteenth consecutive year that the County has received this award. In order to qualify for the Distinguished Budget Presentation Award, the County's budget document was judged to be proficient in several categories including policy documentation, financial planning, and organization.

### **Acknowledgements**

Each County department's strong commitment to the goals, vision and mission statements of the County government is reflected in the services provided to the residents of Catawba County. We appreciate the cooperation of all the County departments in carrying out the financial activities encompassed in this report. The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report. Special recognition is extended to Martin, Starnes & Associates, CPAs for their assistance with the report.

In closing, we thank the Catawba County Board of Commissioners for its leadership and support in making Catawba County a fiscally sound, well-governed community.

Respectfully submitted,

J. Thomas Lundy  
County Manager

Rodney N. Miller  
Finance Director